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Natural Disasters, Foreign aid and Economic Development¹

By

Valeriu Tomescu

Undergraduate Honors Thesis

University of New Hampshire

Abstract

Foreign aid is one of the foremost policy tools that high-income countries use for supporting low-income countries to increase economic growth and improve the well-being of the population. However, the empirical evidence for positive outcomes has been very mixed. Using a sample of 85 countries this paper investigates whether the timing of foreign aid allocations is an important factor in determining aid's effectiveness. The results indicate that foreign aid is 2 to 3 times more effective if awarded during times of natural disasters. The paper also shows that aid allocated during such times increases by about 1% of a given country's GDP. No evidence was found that aid has a more positive impact on growth in countries with good policy environments.

JEL Classification: C10, F35, O47, Q54

Key Words: Foreign aid, growth, natural disasters, economic policies, econometrics.

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